Measuring the Economy

GDP: Gross Domestic Product

* the dollar value of all final goods and services produced within a country’s borders in a given year
* Nominal GDP: GDP measured in current prices
* Real GDP: GDP measured in constant unchanging prices

GDP= consumption + investment + government spending + net exports (exports-imports)

Consumption and investment = expenditure on final goods and services

Government Spending: government expenditures on final goods and services

Net Exports: imports are subtracted because they are included in C, I, and G

GDP: C+I+G+NX

Per Capita GDP: a country’s GDP divided by population

2005 US GDP- $12.77 trillion

population- 295,734,134

per capita GDP- $41,800

2005 China GDP- $8.158 trillion

population- 1,306,313,812

per capita GDP- $6,200

Per capita GDP can often be used to compare countries and their standard of living: economic prosperity

GNP: Gross National Product

* value of goods and services produced within a country in one year, plus income earned by citizens abroad, minus income earned by foreigners in the country
* GNP= goods and services produced + money earned by citizens abroad – income earned by foreigners in the US

CPI: Consumer Price Index

* an average of a specified set of goods and services
* measures the purchasing power of the dollar

***The Business Cycle***

Business Cycle: a period of macroeconomic expansion followed by a period of macroeconomic contraction

4 Phases:

1. Expansion: a period of economic growth, real GDP rises

2. Peak: When GDP stops rising

3. Contraction: a period of economic decline, real GDP falls

4. Trough: when GDP stops falling

During Contraction Phase……

Recession: prolonged economic contraction, real GDP decreases and unemployment increases

Depression: long and severe recession

Business Regulation

The governments regulates business in several ways….

* Antitrust laws (FTC)
* Environmental Protection Agency (EPA)
* Workplace safety (OSHA)
* Consumer Protection (CPSC, FDA)
* Communication (FCC)
* Transportation (FAA)
* Employment (EEOC)
  + labor disputes
  + Affirmative Action

Deregulation is the removal of some government controls over the market. This supports the ideas of laissez faire.

* + 1970’s and 1980’s- period of deregulation
  + Deregulation encourages competition
  + Deregulation can lead to businesses cutting corners

- example: Airlines relaxing security measures before 9-11